

Message Text

PAGE 01 STATE 225186

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TO AMEMBASSY LAGOS

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TAGS: BEXP, NI

SUBJ: LNG PROPOSALS

A) LAGOS 8588, B) LAGOS 7851 C) STATE 219573

1. PURSUANT TO EMBASSY'S REPORTING ON LNG PROPOSALS, THE MAJOR EXPORT PROJECTS DIVISION (MEPD) INVITED GULF OIL V.P. FOR GAS AND GAS LIQUIDS, CALVIN MCKEE, TO WASHINGTON TO DISCUSS GULF EFFORTS IN NIGERIA AND MEANS FOR USG ASSISTANCE. MCKEE MET WITH COMMERCE OFFICERS INCLUDING DIRECTOR OFFICE OF EXPORT DEVELOPMENT BAKER, AND DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL COMMERCE HOSTLER. SUMMARY OF DISCUSSIONS FOLLOWS: CONFIDENTIAL

PAGE 02 STATE 225186

2. GULF FEELS THAT IF TWO PROPOSALS ARE CHOSEN, THEIR PROPOSAL STANDS EXCELLENT CHANCE AS, LIKE SHELL PROPOSAL, IT REQUIRES NO CAPITAL OUTLAY BY NIGERIAN GOVERNMENT. GULF PROPOSAL THEREFORE CONTINGENT ON 100PERCENT FINANCING. (GULF WILL BE INVESTING

DOL 60 MILLION IN INITIAL GATHERING FACILITIES WHICH ARE APART FROM PROJECT BUT WILL BE NEEDED TO FACILITATE EXECUTION OF LNG PROCESSING.) ACCORDING TO GULF, HEREIN LIES ONE PROBLEM WITH EXIM BANK AS EIB GENERALLY PREFERS INITIAL CAPITAL INVESTMENT FROM EQUITY PARTNERS AS WELL AS PARTIAL CASH PAYMENT ON IMPORTED GOODS.

3. MAIN THRUST OF DISCUSSION WAS GULF PROBLEM RE IMPORT OF LNG TO US. THREE FACTORS INFLUENCE DECISION ON MARKET FOR PRODUCT; PRICE, TIME FACTOR AND FINANCING. GULF DID SAY THAT, ALL THINGS BEING EQUAL, THEY WOULD PREFER US PACKAGE, INCLUDING PROCUREMENT ALL GOODS AND SERVICES AS WELL AS SELLING GAS IN US. HOWEVER, CONSIDERATION MUST BE GIVEN TO NIGERIAN DESIRE FOR BEST POSSIBLE PRICE PER CUBIC FOOT ON GAS WITH LEAST DELAY. (OF COURSE GULF WOULD BENEFIT FROM SAME.)

4. TIMING. SIGNIFICANT PROBLEM IS LENGTH OF TIME NECESSARY TO OBTAIN FPC APPROVAL FOR IMPORTATION OF GAS. GULF ESTIMATED THAT APPROVAL WOULD TAKE 22-34 MONTHS. THEY HAD VISITED FPC PREVIOUSLY AND WERE GIVEN NO ENCOURAGEMENT RE THE EXPEDITION OF ANY REQUEST AT THIS TIME. FPC APPROVAL REQUIRES AN ENVIRONMENTAL IMPACT STATEMENT WHICH ALONE ENCOMPASSES MINIMUM OF SIX MONTHS. IN ADDITION, FPC HAS SEVERAL OTHER REQUESTS THAT HAVE BEEN PENDING FOR CONSIDERABLE TIME WHICH, IF NORMAL PROCEDURE IS FOLLOWED, WOULD PROBABLY TAKE PRECEDENCE OR AT LEAST REDUCE PRIORITY OF NEW PROPOSAL. MAIN REASON FOR DELAY ON THESE PENDING PROPOSALS HAS BEEN PROBLEMS OF DETERMINATION OF IMPORT PRICE AS DISCUSSED BELOW. IN ANY CASE, EVEN IF FPC APPROVAL CAN BE EXPEDITED, GULF ADVISED THAT IN EUROPE THEY CAN OBTAIN APPROVAL IN A MONTH OR SO, WHICH CONSTITUTES A CONSIDERABLY MORE DESIRABLE ROUTE FOR THE NIGERIANS.

5. PRICE. ACCORDING TO TRADE SOURCES RECENT EUROGAS CONFIDENTIAL

PAGE 03 STATE 225186

AGREEMENT IN ALGERIA FOR SALE TO EUROPE CALLS FOR PRICE OF DOL 1.75 PER MILLION BTU CIF EUROPE. GULF IS OF THE OPINION THIS CAN BE CONSIDERED THE GOING PRICE INASMUCH AS THEY OR ANY OTHER COMPANY WOULD HAVE NO PROBLEM IN GETTING THAT PRICE IN EUROPEAN MARKET. IN US LAST FPC APPROVED IMPORT PRICE WAS IN 1972 FOR GAS COMING FROM ALGERIA AT LESS THAN DOL 1.00 P/MMB DOCKSIDE US. THERE HAS BEEN NO RECENT DECISION FROM FPC WHICH WOULD INDICATE PRICE THEY WOULD BE WILLING TO CONSIDER AT THIS TIME. FPC HAS BEEN IN PROCESS OF HEARING SEVERAL CASES FOR GAS FROM ALGERIA, BUT ITS OPINION ON PRICE CANNOT BE RENDERED UNTIL COMPANIES CONCLUDE PRICE NEGOTIATIONS WITH ALGERIANS, WHO WANT IN NEIGHBORHOOD OF DOL 1.50-2.00 FOB. ALGERIANS BASE ARGUMENT FOR HIGHER PRICES ON COMPARATIVE ALTERNATE

ENERGY COST, AND WANT TO THEREFORE TIE GAS PRICE TO CURRENT OIL PRICES. GULF BELIEVES THAT FPC, BASED ON CURRENT MARKET, MAY BE WILLING TO GO AS HIGH AS DOL 1.35 (THIS IS CONJECTURE), BUT GULF FEELS THAT UNFORTUNATELY EVEN DOL 1.35 (WHICH WORKS BACK TO MAXIMUM OF 93 CENTS AT OFFTAKE IN NIGERIA) WOULD BE UNACCEPTABLE. (DOL 1.75 EUROPE BACKS OFF TO OVER DOL 1.00 AT OFFTAKE FLANGE IN NIGERIA.) GULF IS WILLING TO UNDERTAKE NEGOTIATION OF IMPORTED PRICE SOMEWHERE BETWEEN DOL 1.35 AND DOL 1.75 IF THERE IS SOME POSITIVE SIGN FROM FPC. IF, FOR INSTANCE, THERE WERE SOME PRELIMINARY PRICE GUIDELINES FROM FPC ALONG THESE LINES, GULF WOULD CONSIDER URGING NIGERIANS TO JOIN THEM IN GOING THROUGH LONG PROCESS REQUIRED FOR APPROVAL. BUT, AS SITUATION NOW STANDS, THEY FEEL THEY HAVE NO OPTION BUT TO LOOK TOWARD EUROPE AS THE MARKET.

6. FINANCING. THIS IS KEY ISSUE WITH RESPECT TO PROCUREMENT OF GOODS AND SERVICES REQUIRED FOR PROJECT FROM US GULF'S COMPETITIVE POSITION VIS-A-VIS OTHER PROPOSALS TO NIGERIANS IS PARTIALLY CONTINGENT ON DESIRABILITY OF 100PERCENT FINANCING OF VENTURE AS STATED ABOVE. GULF FEELS THAT PROJECT CAN BE TOTALLY FINANCED IN EUROPE WITH NO PROBLEMS BY PUBLIC AND PRIVATE INSTITUTIONS WITH 100 PERCENT GUARANTEE AGAINST SUCH POLITICAL RISKS AS NATIONALIZATION (WHICH GULF FEELS IS ESSENTIAL). EXIMBANK HAS BEEN NEGATIVE ABOUT EQUITY ARRANGEMENT; BUT EVEN IF EIB DID AGREE TO FINANCE PROJECT, THEY ARE NOT ABLE TO PROVIDE CONFIDENTIAL

PAGE 04 STATE 225186

100PERCENT FINANCING. OF COURSE, IF LNG DESTINED FOR US (AND UNDER THOSE CIRCUMSTANCES EIB WOULD BE MORE AMENABLE TO SUPPLYING FINANCING), GULF MAY BE ABLE TO CONCLUDE SOME ARRANGEMENT WITH US BUYERS TO SUPPLY INITIAL INVESTMENT CAPITAL AND SUPPLEMENT FINANCING WHICH COULD POSSIBLY SATISFY EIB. THUS, WE ARE BACK TO FPC APPROVAL.

7. THEREFORE, PROCURMENT OF ENGINEERING/CONSTRUCTION SERVICES AND RELATED EQUIPMENT, WHICH AT GULF'S ESTIMATE WOULD REPRESENT DOL 470 MILLION IN EXPORT SALES FOR US (ASIDE FROM TANKER PROCUREMENT), IS TIED TO DESTINATION OF LNG. GULF IMPLIED THAT THEY MAY BE FORCED (PRESUMABLY BY TIED FINANCING) TO DO ALL PROCUREMENT OUT OF EUROPE IF GAS SOLD TO EUROPEAN MARKET. (THEY HAVE NO FORMAL COMMITMENT WITH BECHTEL OR ANY OTHER US FIRM.) AN IMMEDIATE DECISION BY NIGERIAN GOVERNMENT TO GO AHEAD WITH PROJECT WOULD MAKE THIS POSSIBILITY MORE LIKELY. CONCLUSION OF DISCUSSIONS WAS THAT SOME MEANS OF EXPEDITING FPC PROCEDURE AND/OR OF DETERMINING PRICE GUIDELINE WOULD BE NECESSARY AS FIRST STEP TO ASSURE US PARTICIPATION IN PROJECT. GULF REQUESTED THAT COMMERCE ASSIST THEM ALONG THESE LINES.

8. GULF'S ABILITY TO TAP EUROPEAN MARKET,, AS EMBASSY SUGGESTS, MAY BE FURTHER REASON FOR NIGERIANS TO GO W/GULF VIS-A-VIS TENNECO. IF TENNECO, INDEED, PROPOSES TOTAL US PACKAGE, THEN IT IS IMPORTANT FROM STANDPOINT OF EXPORT SALES ALONE THAT WE SUPPORT TENNECO'S EFFORTS. MEPD HAS ALSO BEEN IN CONTACT W/TENNECO, AND THEY HAVE EXPRESSED CONCERN THAT UNLESS NIGERIAN FEARS RE NEGATIVE US IMPORT POLICY ON LNG ARE ALLAYED BY USG, TENNECO PROPOSAL WILL "GO DOWN THE DRAIN."

9. COMMENT: DEPARTMENT CONSIDERS THE LNG PROJECT TO BE OF PARTICULAR IMPORTANCE TO THE USG BECAUSE OF SUBSTANTIAL EXPORT SALES POTENTIAL. HOWEVER, THIS EXPORT OPPORTUNITY, TO GREAT DEGREE, IS DEPENDENT ON DESTINATION OF GAS, AS CONVERSATIONS WITH GULF AND TENNECO INDICATE.

10. THE USG DOES NOT HAVE AGREED POSITION ON THE IMPORT OF LNG AND ROLE LNG SHOULD PLAY IN OUR OVERALL ENERGY
CONFIDENTIAL

PAGE 05 STATE 225186

POLICY. WHILE THERE ARE SUBSTANTIVE ARGUMENTS BOTH FOR AND AGAINST THE LNG QUESTION, UNTIL THIS QUESTION IS RESOLVED, IT IS TO OUR ADVANTAGE THAT OPTIONS SUCH AS NIGERIA REMAIN OPEN TO US, IF POSSIBLE, IN THE EVENT THAT THE US DOES ADOPT A POLICY WHICH ENCOURAGES LNG IMPORTS. MOREOVER, NIGERIAN LNG SUPPLIES MIGHT BE MORE RELIABLE THAN THOS FROM CERTAIN OTHER PRODUCERS, IF THE U.S. DOES DETERMINE LNG IMPORTS ARE IN THE NATIONAL INTEREST.

11. DURING THIS TIME THAT OUR POSITION ON LNG REMAINS UNCLEAR, FPC IS REVIEWING LNG IMPORTS ON A CASE-BY-CASE BASIS. THIS WILL CONTINUE TO BE THE PROCEDURE UNLESS AND UNTIL A FINAL DECISION IS MADE ON THE ISSUE. THIS DECISION WILL BE FURTHER DELAYED UNTIL AFTER CONGRESS HAS ACTED ON THE ADMINISTRATION'S PROPOSED DEREGULATION OF THE PRICES OF DOMESTIC NATURAL GAS. END COMMENT

12. PRIOR TO DEPARTURE OF MEPD PROJECT OFFICER FOR NIGERIA (SEE REF C), MEPD WILL BE DISCUSSING PROJECT MORE EXTENSIVELY WITH TENNECO, EXIMBANK, FPC, AND DESIGN/CONSTRUCTION FIRMS WHICH ARE SEEKING CONTRACTS WITH OIL COMPANIES. PROJECT OFFICER WITH EMBASSY CAN THEN ATTEMPT FORMULATE JOINT COURSE OF ACTION.

13. MEANTIME, IN LIGHT OF THE ABOVE, AND IN KEEPING WITH DESIRE TO "MAXIMIZE RESULTS FAVORABLE TO US FIRMS (REF A PARA 5), EMBASSY COULD APPROPRIATELY INDICATE TO FMG OFFICIALS THAT PAPER PRESENTED AT 4TH INTERNATIONAL LNG CONFERENCE (AIRPOUCHED PREVIOUSLY) DOES NOT CONSTITUTE STATEMENT OF USG POLICY ON LNG. NO POLICY DECISION HAS YET BEEN REACHED. EMBASSY COULD EMPHASIZE LNG IMPORTS BEING CONSIDERED ON CASE-BY-CASE BASIS, AND EXPRESS OUR HOPE THAT

US FIRMS CAN PLAY AN ACTIVE ROLE IN LNG PROJECT WORK. IT
COULD BE NOTED THAT US EQUIPMENT AND EXPERTISE IN THE LNG
FIELD IS OF SUPERIOR QUALITY AND THAT US INVOLVEMENT
IN LNG PROJECTS WOULD ENCOURAGE OTHER POTENTIAL US INVESTORS
TO EXPLORE OPPORTUNITIES IN NIGERIA. INGERSOLL

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